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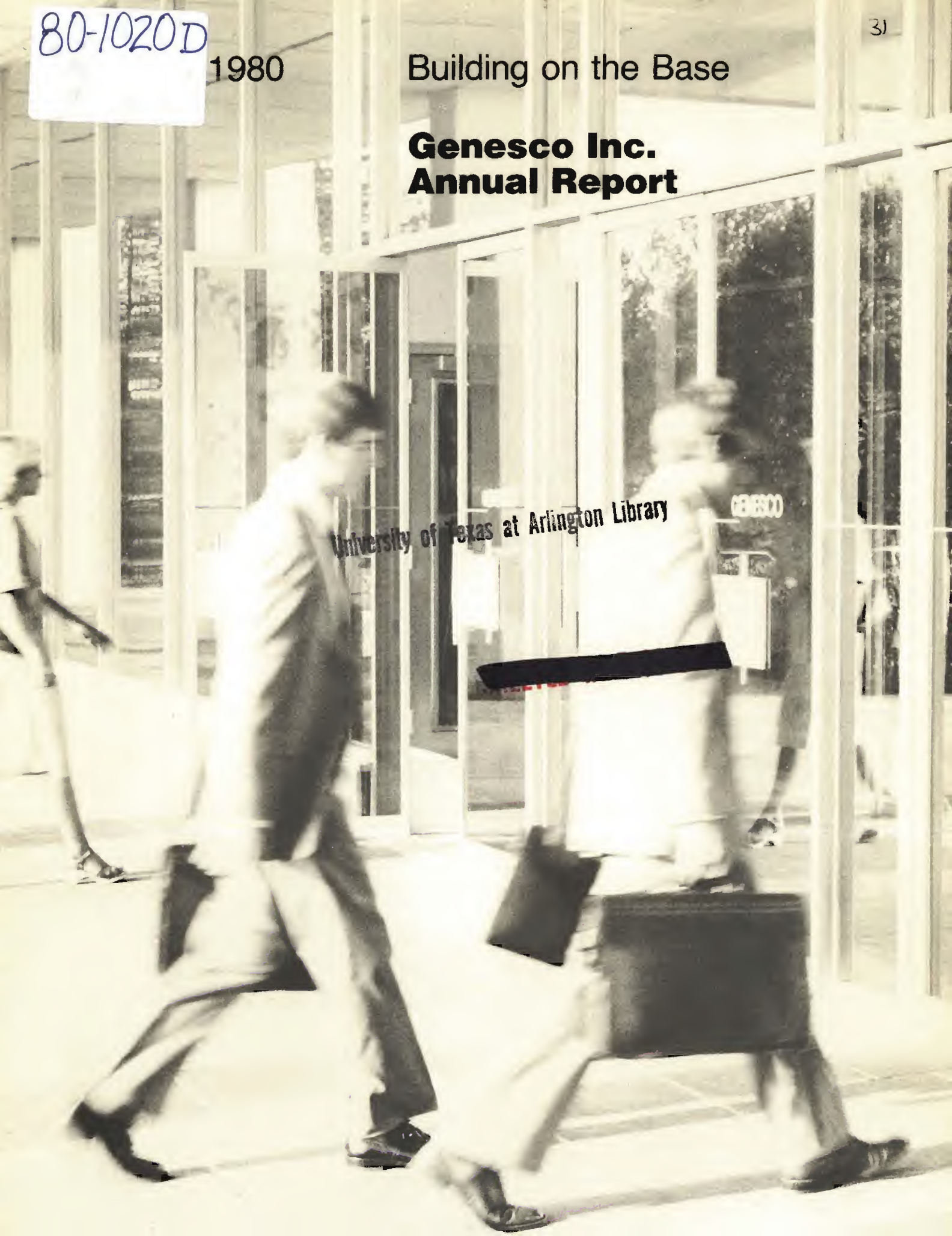
1980

Building on the Base

Genesco Inc. Annual Report



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1980 Genesco Inc. Annual Report

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The Business of Genesco

Genesco's business is primarily in two areas: footwear and men's apparel. Genesco is one of the largest footwear manufacturers in the United States and Canada. Its plants make men's, women's and children's shoes and hosiery. These are sold under various company brand names and under the private labels of some customers. In addition, the Company has 1,120 shoe stores and leased departments in the U.S. and Canada. Products for these stores come from the Company's own plants and from other domestic and international resources.

Genesco's men's apparel operations produce tailored clothing and jeans and slacks, primarily for other customers, but also for the Company's men's specialty store operations. Genesco is one of the largest manufacturers of tailored clothing in the U.S.

The Company also operates a nationwide chain of variety stores and eight drug stores in Houston, Texas.

Clothing and shoes are one of the three basic necessities; companies around the world compete to supply the North American market. Genesco's operations are located mainly in the U.S. and Canada, and do most of their business there. Exports are a small percentage of sales. The apparel and footwear markets are highly seasonal in nature, with fall and Christmas the peak seasons.

In total Genesco has some 22,000 employees. The Company is an equal opportunity employer.

Financial Highlights

Years Ended July 31	**1980**	1979
Net sales	**$834,683,000**	$992,925,000
Operating income—ongoing operations	**4,649,000**	7,793,000
Net earnings	**3,453,000**	6,332,000
Primary earnings per common share	**$.02**	$.22

Cover

8:00 a.m. at Genesco Park, the Company's headquarters in Nashville, Tennessee.

John L. Hanigan
Chairman

Report to Stockholders:

The earnings results for fiscal 1980 were of course disappointing to your management. However, the financial health of your Company is better than it has been for some years.

The plan which the Company started in 1977 has had the desired good effect on the balance sheet with a reduction in overall debt in three years of $158 million. The job now is to clear out some more dead wood in our operations and this will be continued in the next year.

The most important asset that any company can have is good people and we are fortunate in being able to attract Richard W. Hanselman as our new president and chief operating officer. Dick has taken hold since he joined us in May of 1980 and already has gained the respect and cooperation of the organization.

I am very happy that the Company was also able to attract three such capable directors as Allen Steele, Ken Roberts, and Ed Watson, each of whom will bring a different viewpoint to the Company and help fill the hole left by the upcoming retirement in December 1980 of Ed Blettner and Sam Fleming, both of whom have served long and faithfully to get us back on the track.

On September 9, 1980, Genesco lost a part of its history with the passing of W. Maxey Jarman, who served the Company as chief executive for 36 years and as a director for 48 years.

The payment of dividend and redemption arrearages on our $4.50 preferred stock is an action that the board thought was prudent in view of our improved balance sheet. I hope we can continue to pay them in the future. That and the continued improvement in our condition can only come with the earnings improvement that now must result from operation of the business.

With a change in the economy and the expected reduction of losses in those operations which so adversely affected 1980's results, and with the marketing and business skills of our new president, I think that better earnings are inevitable in the years ahead.

1980 Building on the Base

Fiscal 1980 marked the third year of Genesco's plan to improve its return on investment. During the year substantial building took place in the Company's ongoing operations, along with further consolidation and reduction of debt.

Genesco earned $3.5 million in fiscal 1980 on sales of $835 million, including gains on divestments. In general, the recession and restraints on consumer credit took a toll, especially in the Company's wholesale operations, where customers cut back their buying in expectation of the recession.

Several operations performed above expectations; a few, however, pulled the total results down. Genesco's operating income from ongoing operations declined $3.1 million from last year. But three operations alone—MALE, S. H. Kress, and Roos/Atkins—accounted for a negative variation of $10.1 million. If the results of these three operations could be removed, total operating income for Genesco would have more than tripled for the year. The men's apparel results would have increased substantially, and instead of a loss, the retail sector would have been at break even.

Even without the results of these three operations, Genesco's earnings would not have been satisfactory, although better than last year. But these three units obscured the improvement which has taken place in many areas. Extensive efforts are underway to prevent these operations from having similar adverse effects on future results.

There are aspects of Genesco's financial condition which are encouraging. For example, despite record-breaking interest rates, the Company's interest expense was some $5.3 million lower this year than last. Borrowings were substantially lower than the previous year because the Company was able to pay down short-term debt using the proceeds from divestments. The level of borrowing was so much lower that it offset the tremendous increase in interest rates.

Equally significant is the fact that the Company's cash flow for the year exceeded expectations. With higher capital expenditures and the scheduled reduction of long-term debt, cash demands were extensive. But by careful management of inventories, receivables and other cash uses, the Company, along with its finance subsidiary, Genesco Financial Corporation, produced a combined positive cash flow for the year.

President Richard W. Hanselman meets with his key operating executives. From left to right: R. E. McLendon—general manager, materials and components; Robert L. Holland—deputy general manager, women's footwear retailing; Charles F. Milner, Jr.—general manager, footwear marketing and manufacturing; Richard W. Hanselman—president; Dan W. Gregory—general manager, footwear retailing and Canadian operations; and Larry B. Shelton—general manager, men's apparel and retailing.

Laying the Foundation

In 1977 Genesco set out on a three-step plan for rebuilding its earning power. The first step was to disengage from those businesses which did not provide long-term growth opportunities for the Company. Extensive progress has been made. During the last three years, Genesco sold or closed some 34 operations, 13 plants, and more than 130 stores. The sale this year of Michele of Miami and Henri Bendel marked the end of the Company's involvement with women's apparel.

1980 Capital Expenditures

New Phoenix Plant	$ 7,529,000
Other Plants and Equipment	5,027,000
New Retail Stores	6,290,000
Store Renovations	2,351,000
Other	2,118,000
Total	$23,315,000

Building on the Base

A reduction of this scope necessarily entailed sizeable losses. More importantly, the sale of those assets generated cash which the Company used to pay off some $158 million in short- and long-term debt over the last three years. This was the second step of the Company's plan. As was said earlier, that reduction, particularly in short-term debt, was of critical importance when interest rates went to 20%. Although debt has been sharply reduced, management is not satisfied with the current condition of the balance sheet. Much work remains to be done.

The progress the Company has made does not necessarily mean there will be no further divestments. The Company's management has set tough standards for return on assets employed. Any unit which fails to meet those standards and shows little promise of doing so within a reasonable time will become a candidate for divestment.

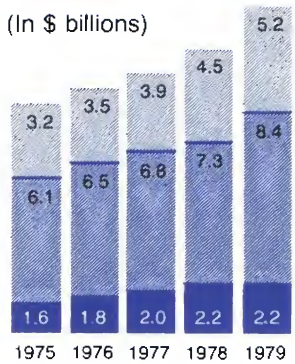
Two Major Markets

The third step in the Company's plan is to build on the base of its remaining operations. These lie primarily in the areas of footwear and men's apparel. There are certain characteristics of these two markets which offer significant opportunities. The market for footwear in the United States is huge: some $16 billion per year at retail. It is growing in real terms at a rate of about 2% per year. In men's apparel, the market is about $5 billion for tailored clothing, $5 billion for jeans and slacks and $1 billion for hosiery.

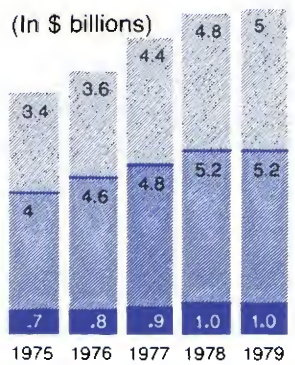
Mature markets like these do not ordinarily experience dramatic growth, but their sheer size and consistency offer opportunities nevertheless. Just as important, in a number of areas no single brand or group of brands dominates the market. For example, in men's footwear all the major brands (those having a 1% or larger share of market) together add up to only 27% of the market. In women's footwear, the comparable figure is only 17%.

Thus there are opportunities, although competition is stiff. In order to build market share, Genesco will increase both product offerings and its distribution channels. The key to success will be to do a better job of anticipating consumer needs and desires, to build demand for Genesco's products, and to deliver satisfactory quality and service.

U.S. Market for Footwear at Retail



U.S. Market for Certain Categories of Men's Apparel at Retail



Strategies

The nature of the markets which Genesco serves and the competition for them clearly call for a more marketing-oriented strategy. Rather than concentrating on what the Company can produce, Genesco will focus on providing what the consumer wants, whether made in its own factories or elsewhere. This does not mean that the Company is planning to withdraw from footwear manufacturing. Great emphasis is being placed on improving this area. But it does mean a shift in strategy. The Company's wholesale lines will include whatever styles are appropriate for their particular market segment. If the Company's own factories can't make those styles, they will be bought from other resources. The same will be true in the Company's shoe stores.

Building on the Base

To increase this orientation toward marketing, the Company has added marketing expertise in its operations. In addition to establishing a corporate marketing research capability, Genesco has hired marketing managers for its shoe divisions. Deliberately, these people were sought outside the apparel and footwear industry in order to bring a different approach to consumer product marketing.

To structure an organization capable of anticipating the changing consumer, the footwear area was realigned. Previously, all footwear operations reported to a single officer who, in turn, reported to the chief executive. Now, footwear has been divided into three divisions, each reporting to Richard W. Hanselman, the Company's president and chief operating officer. In addition to removing one layer of management, this organization has also placed executives with successful consumer experience in key positions.

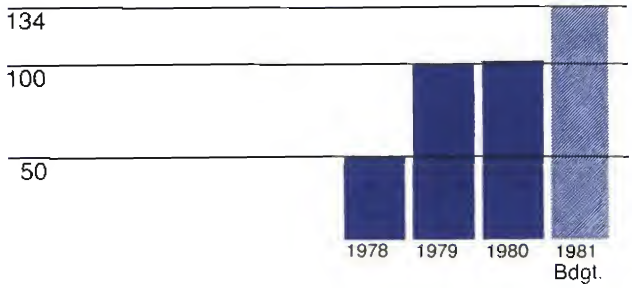
Opportunity in Shoe Retailing

Shoe retailing has consistently been profitable for Genesco and is seen as a major opportunity. The Company had a base of 1,120 shoe stores and leased shoe departments as of July 31, 1980. Opening new locations, closing unsatisfactory ones, and improving the results of existing units are all top priorities. In the last three years the Company opened 253 new stores while closing 284 locations. 134 new stores are budgeted to be opened in fiscal 1981.

Opening new stores will become increasingly difficult as the number of new malls opening slows and competition for locations continues. Nevertheless, there are reasons to be encouraged about the Company's prospects. For fiscal 1981, Genesco already has most of its budgeted leases committed. In addition, the Company will be actively seeking leases in existing malls where other stores may have lost their leases. A location in an established mall means a shorter startup time before the location begins generating a profit.

At the same time, efforts are underway to improve the results of existing units. First, the Company is updating the appearance of many stores, opening the store fronts to invite

Shoe Store Openings (includes stores and leased shoe departments)



customers in. Likewise, the total square footage of many stores is being reduced. This not only cuts the cost of renting space, but many customers today prefer stores which are small enough to browse through quickly. In the last three years, the Company has renovated 112 locations, and more renovations are scheduled in fiscal 1981.

Genesco has also found that in a location where one store does not perform well, another Genesco store may better suit the clientele of that particular mall. In other cases the Company has taken a single large store and divided it into two and even three smaller ones. In these cases, the multiple stores usually perform better than the one older store. So far, 23 such conversions have been made, and more are budgeted in fiscal 1981.

Finally, Genesco is working to improve the merchandising of individual locations. Although a chain will want to project a certain image in all its stores, the merchandise must to a certain extent be tailored to the region and, in some cases, the individual location. This means increasing the involvement of the district and store managers in merchandising decisions.

Men's Apparel Strategy

Genesco's men's apparel operations generally have been more marketing oriented than most of the footwear operations in the past. They have done a good job of establishing brands and developing a consumer franchise.

A significant opportunity is available to the Company's men's brands in the form of the huge wave of young men starting to enter their 30's. As the post war baby boom reaches this age, demand for tailored clothing, better grade

hosiery, and other "dressy" clothing is expected to increase sharply. The first signs of this appeared last year, when unit sales of tailored clothing increased for the first time in ten years. This same segment of the population is also better educated and can be expected to earn substantially more. In short, the goal of Genesco's men's operations is to cater to this market with brand names, fashionable styling, and quality products. In tailored clothing in particular, Genesco is in a good position to do so. Its units have combined sales in excess of $110 million, putting Genesco in the top three tailored clothing companies in the U.S.

Work in Progress
The results for fiscal 1980 do not indicate the substantial efforts aimed at improving the Company's rate of return. While activity is widespread, here are a few examples of what is taking place.

Greif's Marketing Turnaround
Greif is a 115-year-old company which was once the leader in men's private label tailored clothing. When the market shifted, Greif lost position. Five years ago, under new management, the operation chose a new direction. It introduced a series of branded suit lines, each aimed at the lifestyle of a specifically chosen customer and backed by the name of a well-known designer. The results have been remarkable.

Today, Greif is a profitable firm with sales which have doubled in the last four years. Over 80% of that volume is in branded merchandise, compared with none five years ago. Greif brands like **Lanvin, Chaps by Ralph Lauren, Donald Brooks, Aquascutum** and **Kilgour, French and Stanbury** can be found in leading specialty stores and men's departments throughout the country.

Greif continues to home in on its existing markets but will add new lines when industry changes and fashion trends present new opportunities in the market place. Its resurgence clearly demonstrates the potential impact which successful marketing can have.

Building on Success at Phoenix
Phoenix, acquired by Genesco in 1964, has long been one of the Company's most profitable operations. By offering fashionable men's tailored clothing in a variety of silhouettes, Phoenix has made a very successful niche for itself. Retailers have come to expect Phoenix to be a fashion leader, with such innovations to its credit as Swedish warp knits, its forward shoulder expression, and others.

Phoenix has also demonstrated its marketing prowess with designer names, first with Hardy Amies, more recently with the introduction of a line by Oleg Cassini.

In order to gear itself for the future, Phoenix is completing a $10 million construction effort which will result in the most modern factory in the men's tailored clothing industry. The plant it will replace is a multi-story building over 100 years old. The new 325,000 square foot plant will be primarily on one level, and will include computerized marker making systems and sophisticated pressing equipment. Construction is scheduled to be completed late this fall, and

Greif clothing has been featured several times in Saks Fifth Avenue's windows.

Phoenix expects to be fully operational in the new facility, located near Allentown, Pennsylvania, by early 1981.

The new plant, with its modern equipment and more efficient production layout, is expected to give Phoenix the edge it needs to continue to compete successfully in the market.

Bell Bros. to Foot Scene

Bell Bros. was a chain of traditional family shoe stores located in the Southeast with an unsatisfactory record of performance. In order to improve that performance, Genesco has taken a concept from its Agnew-Surpass chain in Canada. Agnew has been extremely successful offering fashionable shoes for women and men in exciting, contemporary stores. Using the Agnew concept, Bell has dropped children's shoes, updated its fashion image, and begun to offer branded shoes. In addition, the stores are being remodeled with a more contemporary look, and store size has been reduced, in some cases as much as 50%. Finally, the name of the stores is being changed to Foot Scene to give a more modern image and to clearly separate the new stores from the old family concept.

The new Foot Scene offers some interesting opportunities for expansion. By offering shoes for men as well as women, Foot Scene can generate more volume than with women's shoes only. Thus it can be successful in a location with insufficient traffic to sustain a single gender store. Also, the fact that young couples tend to shop together offers the chance for combination sales to the husband or boyfriend.

The results to date have been encouraging. In new or remodeled locations, not only have sales per square foot increased, but total store sales have shown substantial gains. Foot Scene has 50 stores now; 86 are expected by the end of 1981.

The Bell/Foot Scene story is significant because it incorporates much of the Company's blueprint for improving footwear results: remodelings, conversions, expansion, and a new marketing emphasis. More importantly, it gives Genesco a new entree into women's footwear retailing, which represents over 50% of the total market in the U. S.

The new Foot Scene concept varies sharply from the old Bell Bros.

Upping Productivity with Statistics

One of the greatest concerns facing American business today is the decline in productivity. As one approach to this problem, Genesco retained Dr. W. Edwards Deming early in fiscal 1980 to introduce his program of statistical quality control. Dr. Deming is generally conceded to be a major factor in the rebirth of Japanese industry after World War II. Dr. Deming went to Japan in 1950, and his system of statistical quality control is widely practiced there. As a result, "made in Japan" changed from an epithet to a mark of quality.

According to Dr. Deming, quality control and productivity are directly related. He argues that sorting out damaged goods after they are made is wasteful and inefficient. Instead, he has shown that with the aid of statistical techniques, errors can be reduced in each step of the manufacturing process. Using this statistical data, management should be able to bring quality up to acceptable levels by altering conditions in those processes which exceed the statistical parameters.

Genesco has already begun to implement the program in three of its shoe plants. Eventually, the Company expects to extend the program to all operations.

A program like statistical quality control does not produce quick, dramatic results. Yet its cumulative impact can be very significant. It offers the possibility of improved product quality, reductions in material and labor costs per unit, and increased productivity, all qualities essential to give Genesco a competitive edge in manufacturing.

Dr. W. Edwards Deming in a recent meeting at Genesco Park.

Narrowing the Focus in Canada

In the mid-1960's, Genesco's Canadian operations were extensive: they made dress shoes for men, women, and children, operated shoe stores and leased departments, produced rubber footwear, and made women's foundation garments. But they did not make much money. In response, Canadian management began to narrow the focus of the business. Three different footwear manufacturing organizations were combined to form General Shoe of Canada, and several plants were closed. General Shoe dropped women's and children's shoes and limited itself to certain constructions of men's shoes. The rubber footwear and lingerie divisions were sold.

At the same time, the shoe retail divisions were shifting from predominantly street locations to shopping centers and malls. Customers were carefully targeted, and the fashions they wanted were carried in depth. While it was never possible for General Shoe to make all the stores' needs, today only 15% to 20% of its production goes to company stores, representing only 12% of their sales.

By 1976, the Canadian operations were producing a return on assets which exceeded the Company's standard of performance, and they have continued to do so every year since then. They have also held their position in the Canadian market despite intense competition not only from other Canadian firms but also from U. S. shoe companies moving into the Canadian market.

Building on the Base

The foregoing examples are not the only operations which are building for the future. Similar efforts are taking place throughout the Company. But these five examples illustrate the approach which the Company is taking to improve return on assets.

Genesco will continue to narrow its focus to those areas where it has an established position or significant opportunities. In those areas the Company will continue to make substantial investments of both its human and capital resources. And in all cases the commitment will be to the consumer, serving him or her by effectively anticipating needs and desires, and providing the proper combination of quality, price and service.

1980 Business Segment Information

	In Thousands	1980	1979	1978	1977	1976
Sales to Unaffiliated Customers:	Footwear:					
	U.S.A.					
	Shoes and accessories	**$327,676**	$339,221	$ 347,512	$312,929	$340,625
	Raw materials	**41,458**	42,545	35,800	36,367	40,550
	Canada (shoes and accessories)	**82,592**	75,540	63,970	61,205	58,909
	Total footwear	**451,726**	457,306	447,282	410,501	440,084
	Men's apparel:					
	Tailored clothing	**108,072**	100,725	98,024	82,639	75,726
	Jeans and slacks	**64,857**	73,092	80,245	71,203	79,751
	Total men's apparel	**172,929**	173,817	178,269	153,842	155,477
	Retailing:					
	Specialty	**59,684**	58,707	62,619	63,825	64,270
	Variety	**112,172**	104,882	152,413	150,609	156,636
	Total retailing	**171,856**	163,589	215,032	214,434	220,906
	Ongoing operations	**796,511**	794,712	840,583	778,777	816,467
	Divested operations	**38,172**	198,213	207,768	236,010	244,923
	Totals	**$834,683**	$992,925	$1,048,351	$1,014,787	$1,061,390
Intersegment Sales (not included above):	Footwear	**$ 917**	$ 701	$ 591	$ 910	$ 1,280
	Men's apparel	**3,516**	3,983	5,242	6,346	4,786
	Divested operations	**–0–**	50	592	2,365	2,033
	Totals	**$ 4,433**	$ 4,734	$ 6,425	$ 9,621	$ 8,099
Pretax Earnings (loss):	Footwear:					
	U.S.A.	**$ 15,039**	$ 14,355	$ 24,114	$ 14,759	$ 41,402
	Canada	**9,634**	9,365	6,844	4,198	9,846
	Total footwear	**24,673**	23,720	30,958	18,957	51,248
	Men's apparel	**9,123**	8,925	10,417	4,910	6,151
	Retailing:					
	Specialty	**(3,775)**	408	1,149	1,246	2,351
	Variety	**3,409**	6,246	7,011	6,705	9,707
	Total retailing	**(366)**	6,654	8,160	7,951	12,058
	Corporate and financial expenses	**(28,781)**	(31,506)	(28,592)	(27,196)	(29,902)
	Ongoing operations	**4,649**	7,793	20,943	4,622	39,555
	Divested operations	**475**	(1,518)	(1,579)	(6,439)	1,696
	Gain on (provision for) divestments	**3,800**	(7,320)	–0–	(33,224)	–0–
	Totals	**$ 8,924**	$ (1,045)	$ 19,364	$ (35,041)	$ 41,251
Assets:	Footwear:					
	U.S.A.	**$111,155**	$118,600	$ 116,656	$103,053	$108,805
	Canada	**29,514**	28,924	26,220	21,467	22,924
	Total footwear	**140,669**	147,524	142,876	124,520	131,729
	Men's apparel	**73,099**	63,107	61,194	63,778	56,717
	Retailing:					
	Specialty	**22,215**	22,630	22,276	22,998	26,832
	Variety	**47,291**	45,864	57,822	53,375	56,580
	Total retailing	**69,506**	68,494	80,098	76,373	83,412
	Corporate assets	**39,345**	49,642	42,780	70,505	75,350
	Divested operations	**3,795**	31,360	100,005	121,737	142,437
	Totals	**$326,414**	$360,127	$426,953	$456,913	$489,645

Figures for 1976-1979 have been reclassified for divested operations.

Management's Responsibility for Financial Statements

The consolidated financial statements presented in this report are the responsibility of management and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. Some of the amounts included in the financial information are necessarily based on estimates and judgments of management.

The Company maintains an internal control system designed to provide, among other things, reasonable assurance that transactions are executed in accordance with management's authorization and recorded and reported properly. An integral part of the control system is an internal audit program which regularly reviews the internal control systems of the Company and coordinates its activity with the examination by the Company's independent accountants. There are limitations inherent in all systems of internal control and the Company weighs the cost of such systems against the expected benefits.

The financial statements have been examined by our independent accountants, Price Waterhouse & Co. Their primary role is to render an independent professional opinion on the financial statements to the extent required by generally accepted auditing standards. Their examination includes a study and evaluation of the Company's accounting systems and internal controls sufficient to express their opinion on those financial statements.

The audit committee of the board of directors, composed entirely of directors who are not and have never been employees of the Company, meets regularly with management and the Company's internal auditors and independent accountants to review reports on compliance with accounting controls and Company policies, auditor selection, audit scope and results, fee arrangements, and other matters of interest to the audit committee. The internal auditors, as well as the independent accountants, have full and free access to the audit committee, and meet with it, with and without management present, to discuss matters of interest to the committee.

In its corporate policy on ethical business conduct, the Company has stated its intent to maintain the highest level of legal and ethical standards in the conduct of business activities. The Company annually reaffirms this policy to all employees to assure a constant awareness of the high standards which each person is expected to maintain and receives signed statements from all management employees confirming their compliance with this policy.

Vice President—Finance

Vice President
Chief Accounting Officer

Independent Accountants' Report

To the Board of Directors and
Stockholders of Genesco Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings and accumulated deficit, of additional paid-in capital and of changes in financial position present fairly the financial position of Genesco Inc. and its subsidiaries at July 31, 1980 and 1979, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

First American Center
Nashville, Tennessee 37238

August 26, 1980 except as to Note 19, which is as of September 24, 1980

Consolidated Balance Sheet

July 31	1980	1979
Assets		
CURRENT ASSETS		
Cash	**$ 9,933,000**	$ 12,371,000
Receivables (Note 2)	**21,363,000**	24,537,000
Inventories (Note 3)	**175,944,000**	197,687,000
Prepaid expenses	**2,114,000**	1,440,000
Current assets of operations being divested (Note 4)	**–0–**	6,191,000
Total Current Assets	**209,354,000**	242,226,000
Investments and long-term receivables (Note 5)	**14,349,000**	17,891,000
Plant, equipment and capitalized lease rights (Note 6)	**101,838,000**	98,350,000
Deferred note expense	**873,000**	1,141,000
Fixed assets of operations being divested	**–0–**	519,000
Total Assets	**$326,414,000**	$360,127,000

Liabilities and Stockholders' Equity	1980	1979
CURRENT LIABILITIES		
Notes payable (Note 7)	**$ 10,000,000**	$ 12,000,000
Current payments on long-term debt	**13,094,000**	8,920,000
Current payments on capitalized lease obligations	**3,873,000**	6,445,000
Accounts payable and accrued liabilities	**70,235,000**	75,347,000
Provision for operations being divested (Note 10)	**9,373,000**	14,462,000
Total Current Liabilities	**106,575,000**	117,174,000
Long-term debt (Note 8)	**78,900,000**	92,456,000
Subordinated commitment to foreign finance subsidiary (Note 9)	**12,200,000**	12,383,000
Capitalized lease obligations (Note 11)	**20,013,000**	25,089,000
Provision for operations being divested (Note 10)	**14,828,000**	19,728,000
Deferred credits to income	**2,438,000**	2,599,000
Redeemable preferred stock (Note 12)	**39,324,000**	45,345,000
Non-redeemable preferred stock (Note 12)	**55,144,000**	55,154,000
Common stock (Note 12)	**13,108,000**	13,108,000
Additional paid-in capital	**63,813,000**	60,769,000
Accumulated deficit	**(32,862,000)**	(36,315,000)
Treasury stock, at cost	**(28,681,000)**	(28,681,000)
Employee stock purchase accounts (Note 16)	**(18,386,000)**	(18,682,000)
Total Liabilities and Stockholders' Equity	**$326,414,000**	$360,127,000

The accompanying Notes are an integral part of these Financial Statements.

Consolidated Earnings and Accumulated Deficit

Years ended July 31	1980	1979
Net sales	**$834,683,000**	$992,925,000
Cost of sales	**558,572,000**	672,812,000
Gross margin	**276,111,000**	320,113,000
Selling, general and administrative expenses	**258,723,000**	292,157,000
Interest expense	**19,198,000**	24,479,000
Other income	**6,934,000**	2,798,000
Operating income (loss):		
Ongoing operations	**4,649,000**	7,793,000
Divested operations	**475,000**	(1,518,000)
Gain on (provision for) divestments (Note 10)	**3,800,000**	(7,320,000)
Pretax earnings (loss)	**8,924,000**	(1,045,000)
Income taxes (Note 13)	**5,471,000**	6,990,000
Nonconsolidated companies earnings	**–0–**	70,000
Earnings (loss) before discontinued operations	**3,453,000**	(7,965,000)
Excess provision for future losses of discontinued operations (Note 10)	**–0–**	14,297,000
Net Earnings	**3,453,000**	6,332,000
Accumulated deficit at beginning of year	**(36,315,000)**	(42,647,000)
Accumulated Deficit at End of Year	**$(32,862,000)**	$(36,315,000)
Earnings (loss) per common shares:		
Primary:		
Before discontinued operations	**$ .02**	$ (.91)
Net earnings	**$ .02**	$ .22
Fully diluted:		
Before discontinued operations	**$ .02**	$ (.85)
Net earnings	**$ .02**	$ .21

Consolidated Additional Paid-In Capital

Years ended July 31	1980	1979
Balance at beginning of year	**$60,769,000**	$60,849,000
Conversion of preferred stock	**5,000**	223,000
Expenses relating to capital stock issuances	**(4,000)**	(8,000)
Increase in liquidating value of preferred stock	**(330,000)**	(295,000)
Cancellation of Series B shares	**3,373,000**	–0–
Balance at End of Year	**$63,813,000**	$60,769,000

The accompanying Notes are an integral part of these Financial Statements.

Consolidated Changes in Financial Position

Years ended July 31	1980	1979
Sources of Working Capital		
Earnings (loss) before discontinued operations	**$ 3,453,000**	$ (7,965,000)
Excess provision for future losses of discontinued operations	**–0–**	14,297,000
Depreciation and amortization	**12,436,000**	14,247,000
Equity in nonconsolidated companies' earnings:		
Genesco Financial Corporation	**(2,132,000)**	(2,781,000)
Other nonconsolidated companies	**–0–**	(70,000)
Write-down of assets of operations being divested	**–0–**	5,920,000
Other charges (credits) to earnings not requiring funds	**391,000**	(115,000)
Working capital provided by operations	**14,148,000**	23,533,000
Plant and equipment sales	**9,403,000**	25,401,000
Dividend from GFC and increase in Loan to Trustee	**4,900,000**	–0–
Additions to capitalized lease obligations	**459,000**	–0–
Sale of Charles Jourdan companies	**–0–**	13,117,000
Other sources of working capital	**1,044,000**	500,000
Totals	**$ 29,954,000**	$ 62,551,000

Uses of Working Capital	1980	1979
Additions to plant, equipment and capitalized lease rights	**$ 23,315,000**	$ 13,119,000
Long-term debt paid or charged against working capital	**12,862,000**	9,891,000
Items affecting provision for operations being divested	**7,082,000**	3,194,000
Reduction in capitalized lease obligations	**5,535,000**	12,147,000
Lawsuit damages paid	**3,000,000**	–0–
Other changes in investments and long-term receivables	**250,000**	2,569,000
Commitment to foreign finance subsidiary charged against working capital	**183,000**	–0–
Acquisition of Tennessee Ravenwood Properties, Inc.	**–0–**	3,920,000
Totals	**52,227,000**	44,840,000
Increase (Decrease) in Working Capital	**$(22,273,000)**	$ 17,711,000

Increase (Decrease) in Components of Working Capital	1980	1979
Cash	**$ (2,438,000)**	$ (8,205,000)
Receivables	**(3,174,000)**	(3,037,000)
Inventories	**(21,743,000)**	(15,784,000)
Prepaid expenses	**674,000**	(624,000)
Current assets of operations being divested	**(6,191,000)**	(24,543,000)
Total Current Assets	**(32,872,000)**	(52,193,000)
Notes payable	**(2,000,000)**	(49,850,000)
Current payments on long-term debt	**4,174,000**	473,000
Current payments on capitalized lease obligations	**(2,572,000)**	(1,623,000)
Accounts payable and accrued liabilities	**(5,112,000)**	(11,688,000)
Provision for operations being divested	**(5,089,000)**	(7,216,000)
Total Current Liabilities	**(10,599,000)**	(69,904,000)
Increase (Decrease) in Working Capital	**$(22,273,000)**	$ 17,711,000

The accompanying Notes are an integral part of these Financial Statements.

Notes to Consolidated Financial Statements

Note 1 Summary of Accounting Policies

Basis of Consolidation
The consolidated financial statements include the accounts of the Company and all domestic and Canadian subsidiaries, except those of Genesco Financial Corporation (GFC). GFC is carried in the consolidated balance sheet at its net equity (see Note 5). Income of GFC before taxes is included in the consolidated earnings statement as a reduction of interest expense with the related income tax included in income taxes.

Inventories
Inventories are stated at the lower of cost or market determined, in wholesaling and manufacturing companies, principally on the first-in, first-out method. Inventories of retail companies are determined by the retail method.

Plant, Equipment and Capitalized Lease Rights
Plant, equipment and capitalized lease rights are depreciated or amortized over the estimated useful life of the related assets. Depreciation and amortization expense is computed principally by the straight-line method.

Retirement Plans
Substantially all of the Company's employees are covered by pension plans. The Company funds pension costs accrued as determined by its independent actuaries.

Earnings (Loss) per Common Share
Primary earnings (loss) per share are computed by dividing net earnings (loss), adjusted for preferred dividend requirements (1980—$3,195,000; 1979—$3,532,000), by average common shares and common share equivalents outstanding. In computing fully diluted earnings (loss) per share, earnings and average shares are appropriately adjusted for outstanding dilutive securities.

Foreign Currency Translation
Current assets (excluding inventories) and liabilities of Canadian subsidiaries are translated into U. S. dollars at the exchange rate in effect at the balance sheet date. Inventories and noncurrent assets are translated at historical exchange rates. Income, costs and expenses are translated at average rates during the year except that historical rates are used to translate depreciation and cost of sales. Aggregate exchange gains and losses for the years ended July 31, 1980 and 1979 were not material.

Note 2 Receivables

Genesco sells most of its accounts receivable to Genesco Financial Corporation (GFC) at the outstanding balance less a 10% reserve for uncollectible accounts. The receivable amounts in the consolidated balance sheet are net of amounts financed with GFC.

	1980	1979
Trade accounts receivable	**$108,661,000**	$119,320,000
Miscellaneous receivables	**3,270,000**	2,992,000
Total receivables	**111,931,000**	122,312,000
Allowance for bad debts	**(4,860,000)**	(4,997,000)
Allowance for cash discounts and returns	**(581,000)**	(887,000)
Net receivables before financing	**106,490,000**	116,428,000
Sold to GFC	**(85,127,000)**	(91,891,000)
Net Receivables	**$ 21,363,000**	$ 24,537,000

Note 3 Inventories

	1980	1979
Raw materials	**$ 28,740,000**	$ 33,902,000
Work in process	**20,318,000**	23,074,000
Finished goods	**40,456,000**	42,935,000
Retail merchandise	**86,430,000**	97,776,000
Total Inventories	**$175,944,000**	$197,687,000

Note 4 Current Assets of Operations Being Divested

	1980	1979
Accounts receivable, net of allowance for bad debts and cash discounts	**$ –0–**	$ 3,929,000
Sold to GFC	**–0–**	(3,366,000)
Net accounts receivable	**–0–**	563,000
Inventories	**–0–**	5,628,000
Total Current Assets of Operations Being Divested	**$ –0–**	$ 6,191,000

Note 5 Investments and Long-Term Receivables

	1980	1979
Equity in Genesco Financial Corporation (GFC)	**$30,016,000**	$31,283,000
Less advance by GFC to Trustee of Genesco employee stock plans	**17,500,000**	16,000,000
Net equity in GFC	**12,516,000**	15,283,000
Other investments and long-term receivables	**1,833,000**	2,608,000
Totals	**$14,349,000**	$17,891,000

The condensed consolidated balance sheet of Genesco Financial Corporation and subsidiary at July 31, 1980 and 1979 follows:

Assets	1980	1979
Cash	**$ 3,788,000**	$ 1,512,000
Customer obligations purchased from Genesco less contract reserve withheld	**85,127,000**	95,257,000
Notes receivable—Trustee of Genesco employee stock plans	**17,500,000**	16,000,000
Notes receivable—other	**67,000**	156,000
Deferred note expense	**293,000**	355,000
Total Assets	**$106,775,000**	$113,280,000

Liabilities and Stockholder's Equity	1980	1979
Notes payable	**$ 5,000,000**	$ 5,000,000
Accrued liabilities	**1,759,000**	1,997,000
Long-term debt	**70,000,000**	75,000,000
Stockholder's equity	**30,016,000**	31,283,000
Total Liabilities and Stockholder's Equity	**$106,775,000**	$113,280,000

Note 6 Plant, Equipment and Capitalized Lease Rights

	1980	1979
Plant and equipment:		
Land	**$ 7,935,000**	$ 8,387,000
Buildings and building equipment	**16,613,000**	16,782,000
Machinery, furniture and fixtures	**51,437,000**	53,579,000
Construction in progress	**10,612,000**	3,651,000
Improvements to leased property	**38,847,000**	39,374,000
Capitalized lease rights:		
Land	**3,333,000**	3,788,000
Buildings	**35,433,000**	40,790,000
Machinery, furniture and fixtures	**26,929,000**	34,877,000
Total plant, equipment and capitalized lease rights	**191,139,000**	201,228,000
Accumulated depreciation and amortization:		
Plant and equipment	**(56,080,000)**	(64,818,000)
Capitalized lease rights	**(33,221,000)**	(38,060,000)
Totals	**$101,838,000**	$ 98,350,000

Note 7 Short-Term Borrowing Arrangements

At July 31, 1980 commitments for loans up to $45,000,000 and $20,000,000 were available to Genesco and GFC, respectively, under revolving credit agreements expiring January 30, 1981 with 13 U. S. banks and one Canadian bank. At July 31, 1980 Genesco and GFC had short-term loans outstanding under the revolving credit agreements of $10,000,000 and $5,000,000, respectively, at an interest rate of 11.5%. Unused commitments for Genesco and GFC amounted to $35,000,000 and $15,000,000, respectively. During the year ended July 31, 1980, total borrowings by Genesco and GFC averaged $23,160,000 at a weighted average interest rate of 15.7% The total maximum borrowings at any month end during the year were $35,000,000.

Under the revolving credit agreements, interest is payable quarterly at the higher of ½ of 1% above the Corporate Base Rate effective at The First National Bank of Chicago or 105% of the CD rate (three-week moving average interest rate on three-month certificates of deposit) and a commitment fee is payable in the amount of ½ of 1% per annum on the daily unused portion of the commitments. Compensating balance arrangements provide that Genesco and GFC will endeavor to maintain collected funds on deposit in each bank which, over a calendar year, average 10% of the bank's commitments plus 10% of the average borrowings under the commitments.

The revolving credit agreements require mandatory prepayments on borrowings and mandatory reductions of the banks' commitments in an amount equal to the Net Cash Proceeds in excess of $5,000,000 from the sale, liquidation or other disposition of certain operations.

Genesco's revolving credit agreement requires the Company, among other things, to maintain working capital of at least $90,000,000; a current ratio of not less than 1.5 to 1; Tangible Net Worth of at least $85,700,000 plus any net increases in Tangible Net Worth from sale of operations, extraordinary (excluding credits for income taxes) or non-recurring transactions and adjustments to the provision for operations being divested; and a ratio of total liabilities (less subordinated debt) to the sum of Tangible Net Worth and subordinated debt of not more than 3.5 to 1. GFC's agreement requires it, among other things, to maintain an Effective Net Worth (stockholder's equity plus subordinated debt) of at least $35,600,000 minus subsequent dividends paid; a ratio of debt (excluding subordinated debt) to Effective Net Worth of not more than 4 to 1; and the sum of cash, cash equivalents and net receivables equal to at least 110% of total liabilities. At July 31, 1980 all of these requirements were met.

Note7 Short-Term Borrowing Arrangements, Continued

A $2,500,000 line of credit with a European bank is available to Genesco provided borrowings thereunder, together with borrowings under its revolving credit agreement, do not exceed the aggregate commitments under such revolving credit agreement. The line can be withdrawn at any time at the bank's option. Borrowings are usually for sixty or ninety day periods at interest rates based on the Eurodollar interbank rate. No compensating balances are required at any time.

Note 8 Long-Term Debt

	1980	1979
4.75% convertible subordinated note due July 1982 with annual payments of $25,000; convertible into common stock at $25.02 per share	**$ 300,000**	$ 325,000
5.00% notes due August 1984 with annual payments of $2,000,000	**20,000,000**	22,000,000
5.25% notes due February 1981	**4,986,000**	5,925,000
10.375% senior sinking fund notes due December 1984 with annual payments of $4,900,000 (less unamortized discount of $139,000; 1979—$181,000)	**50,261,000**	55,119,000
6.50% convertible subordinated debenture (Series A) due April 1987; convertible into common stock at $41.67 per share	**1,172,000**	1,172,000
6.50% convertible subordinated debentures (Series B) due December 1987; convertible into common stock at $45.45 per share	**4,244,000**	4,244,000
5.25% first mortgage notes (Series A) due April 1, 1989 with quarterly principal and interest payments of $464,000 (less unamortized discount of $2,413,000; 1979—$3,019,000)	**10,529,000**	11,904,000
Notes payable incurred by companies prior to acquisition due in varying amounts to 1984 at various interest rates from 4% to 7%	**502,000**	687,000
Total long-term debt less unamortized debt discount	**91,994,000**	101,376,000
Current portion	**(13,094,000)**	(8,920,000)
Totals	**$ 78,900,000**	$ 92,456,000

Under certain long-term loan agreements, the Company is required to maintain Consolidated Net Current Assets at least equal to 150% of Consolidated Funded Indebtedness. At July 31, 1980 the Company's Consolidated Net Current Assets were 162% of Consolidated Funded Indebtedness.

Note 9 Subordinated Commitment to Foreign Finance Subsidiary

In 1968 Genesco World Apparel, Ltd. ("GWAL"), a nonconsolidated Virgin Islands finance subsidiary, issued $15,000,000 principal amount of 5½% guaranteed (subordinated) debentures due 1988 of which $12,383,000 is currently outstanding. The debentures are guaranteed by the Company and are convertible into the Company's common stock at $38 per share. The Company's guarantee is subordinated to the prior payment in full of all present or future senior indebtedness.

GWAL is required to redeem $700,000 of the debentures each March 1 until 1988 when the then remaining principal becomes due. Debentures converted to common stock or otherwise acquired may be credited against the amount required to be redeemed. At July 31, 1980 sufficient debentures had been converted to common stock to satisfy the redemption requirements until March 1, 1981 at which time GWAL will be required to redeem $183,000 of the debentures.

Note 10 Provision for Operations Being Divested and Retail Store Closings

In August 1977 the Board of Directors of Genesco approved a plan to divest its women's and children's apparel segment and certain other operations and established a provision for costs expected to be incurred in carrying out the plan. The Company has divested all of the 22 operations approved in 1977 for divestment. The total costs incurred to date or expected to be incurred in the future will be less than the reserve established in 1977 to cover such losses. Therefore, the Company restored $17,910,000 to income in July 1979 of which $14,297,000 relates to its women's and children's apparel segment and $3,613,000 relates to other operations.

Transactions relating to divestments and retail store closings which affected fiscal 1979 pretax earnings were as follows:

	Provision for Future Losses	Loss (Gain) on Disposal of Assets	Total
Loss on closing four footwear plants	$ 550,000	$ 1,205,000	$ 1,755,000
Loss on closing or providing for closing 125 Kress and Elmore variety stores	7,221,000	4,061,000	11,282,000
Loss on closing men's underwear and pajama divisions	3,353,000	688,000	4,041,000
Gain on disposal of Bonwit Teller and Plymouth Shops women's specialty retailing divisions	8,885,000	(16,481,000)	(7,596,000)
Loss on sale of L. Strauss & Co. men's specialty retailing division	–0–	459,000	459,000
Excess 1977 provision for operations being divested and retail store closings other than women's and children's segment	(3,613,000)	–0–	(3,613,000)
Other losses	–0–	992,000	992,000
Total Provision for Divestments	$16,396,000	$ (9,076,000)	$ 7,320,000

On July 18, 1980 the Henri Bendel women's specialty retailing division was sold for a net gain of $3,800,000, which appears in the caption "Gain on (Provision for) Divestments" on the consolidated earnings statement.

The amount of the provision included in the consolidated balance sheet (including amounts for certain long-term commitments which are classified as long-term liabilities) and the transactions for the years ended July 31, 1980 and 1979 are as follows:

	1980	1979
Balance of beginning of year	**$ 34,190,000**	$ 46,245,000
Additional provision for future losses	**1,319,000**	16,396,000
Excess provision for future losses of women's and children's apparel segment	**–0–**	(14,297,000)
Other changes:		
Operating gains (losses):		
Women's and children's apparel segment (1980 sales—$10,705,000)	**1,072,000**	(3,153,000)
Other operations	**–0–**	1,184,000
Other costs	**(12,380,000)**	(12,185,000)
Balance at End of Year	**$ 24,201,000**	$ 34,190,000

Proceeds from divested women's and children's operations amounted to $2,906,000 (including collection of accounts receivable not sold) during the year ended July 31, 1980. Such amount has not been reduced by expenses related to divesting the operations.

Note 11 Capitalized Lease Obligations

Future minimum lease payments under leases capitalized at July 31, 1980, together with the present value of the minimum lease payments, follow:

Years ending July 31	
1981	$ 5,872,000
1982	4,787,000
1983	2,580,000
1984	2,512,000
1985	2,126,000
Later years	20,554,000
Total minimum payments	38,431,000
Amount representing interest	(14,545,000)
Present value of minimum payments	23,886,000
Current portion	(3,873,000)
Total	$ 20,013,000

Note 12 Redeemable Preferred Stock and Other Capital Stock

Redeemable Preferred Stock

Class	Shares Authorized	Issued at July 31 Shares 1980	Shares 1979	Amount in thousands 1980	Amount in thousands 1979	Common Convertible Ratio	No. of Votes
$4.50 Cumulative Convertible Preferred	82,368	16,955	16,955	$ 1,696	$ 1,696	3.75	*
Subordinated Cumulative Convertible Preference							
$6.00 Series B	161,981	57,407(1)	121,139	5,741(1)	12,114	2.40(2)	2
$6.00 Series C	269,291	126,104	125,887	12,610	12,589	2.20(2)	2
Subordinated Serial Preferred (Cumulative)							
$3.42 Series 2	395,626	165,436	165,436	9,430	9,099	–	1
$4.75 Series 5	122,500	98,474	98,474	9,847	9,847	1.61	1
Total Redeemable Preferred Stock				$39,324	$45,345		

* The $4.50 Preferred Stock normally has no voting rights; however, as long as the Company is in arrears with respect to mandatory redemption requirements or is four quarters in arrears with respect to the payment of dividends, holders of such stock have the right to elect two persons to the board of directors. Such right was most recently exercised at the Annual Meeting held December 3, 1979. (See Note 19.)

(1) As a part of a court's decision in an action brought by certain Series B stockholders, 63,732 shares of Series B stock were cancelled on December 14, 1979.

(2) Also exchangeable for $100 principal amount of 6.50% Convertible Subordinated Debentures. At July 31, 1980 such exchanges were prohibited. See "Restrictions on Dividends and Redemptions of Capital Stock" and Note 17.

Cumulative Convertible Preferred Stock:
Stated value—$100 per share; liquidation value—$100 per share plus accumulated dividends; optional redemption price—$101.50 per share. The Company is required to redeem 998 shares each December 31 at $100 per share. Such redemptions with respect to 1977-1979 were not made and are in arrears ($299,000). (See Note 19.)

Note 12 Redeemable Preferred Stock and Other Capital Stock, Continued

Subordinated Cumulative Convertible Preference Stocks:
Stated value and redemption price for each series—$100 per share; liquidation value for each series—$100 per share plus accumulated dividends. The Company is required to offer to redeem pro rata from holders of Series B and Series C, on each December 31 and June 30, respectively, 5% of the shares of such stock originally issued. The Company may, at its option and on a cumulative basis, credit against such redemption requirement shares which have been converted into Common Stock or purchased or otherwise redeemed and not previously credited. Such redemption of Series B with respect to 1979 was not made and is in arrears ($70,000). At July 31, 1980, sufficient shares had been converted, purchased or otherwise redeemed to satisfy the redemption requirement with respect to Series C until June 30, 1983.

Subordinated Serial Preferred (Cumulative) Stock:
Stated values for Series 2 and 5—$49.00 and $100.00, respectively; liquidation values for Series 2 and 5—$57.00 and $100.00, respectively, plus accumulated dividends; redemption prices for Series 2 and 5—$57.00 and $100.00, respectively. At July 31, 1980, the Company was in arrears with respect to mandatory redemptions of Series 2 and 5 in the amounts of $9,430,000 and $9,800,000, respectively.

Redemptions:
Aggregate redemptions (excluding the above arrearages) of redeemable preferred stock required to be made by the Company during each of the five years ending July 31 are as follows: 1981—$850,000; 1982—$850,000; 1983—$1,732,000; 1984—$1,741,000; 1985—$1,741,000.

Non-Redeemable Preferred Stock

Class	Shares Authorized	Issued at July 31: Shares 1980	Shares 1979	Amount in thousands 1980	Amount in thousands 1979	Common Convertible Ratio	No. of Votes
$4.25 Series A Subordinated Cumulative Convertible Preference	68,943	600	600	$ 60	$ 60	–	3
Subordinated Serial Preferred (Cumulative)							
$2.30 Series 1	131,826	89,286	89,286	3,571	3,572	.83	1
$4.75 Series 3	105,875	80,058	80,058	8,006	8,006	2.11	2
$4.75 Series 4	103,000	65,648	65,648	6,565	6,565	1.52	1
$1.50 Subordinated Cumulative Preferred	5,000,000	105	105	3	3	–	1
Employees' Subordinated Convertible Preferred	5,000,000	1,231,293	1,231,633	36,939	36,948	1.00(1)	1
Total Non-Redeemable Preferred Stock				$55,144	$55,154		

(1) Also convertible into one share of Subordinated Cumulative Preferred Stock.

Subordinated Cumulative Convertible Preference Stock:
Stated value and redemption price—$100 per share; liquidation value—$100 per share plus accumulated dividends.

Subordinated Serial Preferred (Cumulative) Stock:
Stated value for Series 1 is $41.20 per share and for Series 3 and 4 are each $100.00 per share; liquidation values for Series 1—$40.00 per share, plus accumulated dividends and for Series 3 and 4—$100 per share, plus accumulated dividends. Redemption price for Series 1—$40.00 per share; for Series 3—$100.00 per share; and for Series 4—$101.00 per share.

Note 12 Redeemable Preferred Stock and Other Capital Stock, Continued

Subordinated Cumulative Preferred Stock:
Stated and liquidation values and redemption price—$30 per share.

Employees' Subordinated Convertible Preferred Stock:
Stated and liquidation value—$30 per share. Shares are not redeemable.

Common Stock
Common stock ($1 par value). Authorized 20,000,000 shares; issued: July 31, 1980—13,108,123 shares, July 31, 1979—13,107,783 shares. Each share is entitled to one vote at a meeting of stockholders. Common shares reserved at July 31, 1980 for conversion of senior securities and for employee stock plans amounted to 2,364,826 and 728,500, respectively.

Restrictions on Dividends and Redemptions of Capital Stock
Under the Tennessee General Corporation Act, dividends may be paid only out of unreserved and unrestricted earned surplus or out of net earnings of the current fiscal year and the next preceding fiscal year taken as a single period. The Company has no earned surplus, and its aggregate consolidated net earnings reported during the fiscal year ended July 31, 1980 and the fiscal year ended July 31, 1979 amounted to $9,785,000.

The Company's charter provides as to each class of preferred stock that no shares may be redeemed or otherwise acquired for value, if there are dividend or redemption arrearages on any senior or equally ranked stock. Therefore, the Company has taken the position that it is unable to redeem or permit exchanges or conversions of its preferred stock. However, in actions brought by certain holders of the Company's Series B and C Subordinated Cumulative Convertible Preference stock, courts have held that the Company wrongfully suspended the privilege of exchanging such shares for subordinated debentures. See Note 17.

The Company is also prohibited by its current revolving credit agreement from paying dividends on and redeeming shares of any class of stock except its $4.50 Cumulative Convertible Preferred Stock and its Subordinated Cumulative Convertible Preference Stock, Series A.

The Company is currently restricted by certain of its long-term loan agreements from paying dividends on and redeeming shares of any class of stock, except fixed dividends on and mandatory redemptions of shares of $4.50 Preferred Stock in aggregate annual amounts not exceeding $200,000 (See Note 19). The most stringent of such restrictions at this time will not permit dividends or redemptions unless immediately thereafter Consolidated Net Tangible Assets are at least 275% of Consolidated Funded Indebtedness. At July 31, 1980 the Company was $35,399,000 short of this requirement. In addition, preferred dividends of $16,916,000 and mandatory redemptions of $19,599,000 were in arrears. Therefore, Consolidated Net Tangible Assets were $71,914,000 less than would have been required in order to pay all the dividend and redemption arrearages at July 31, 1980.

The Company's debt instruments also contain other restrictions on dividends and redemptions which at July 31, 1980 were not as restrictive; however, certain of such restrictions would also have prohibited dividends and redemptions.

Note 12 Redeemable Preferred Stock and Other Capital Stock, Continued

Dividend arrearages

Class of Stock	Date Dividends Paid to	Arrearage at July 31, 1980 Per Share	Aggregate
$4.50 Cumulative	October 31, 1976	$16.88	$ 286,116
$4.25 Series A	January 31, 1975	23.38	14,025
$6.00 Series B	January 31, 1975	33.00	1,879,911
$6.00 Series C	January 31, 1975	33.00	4,114,572
$2.30 Series 1	January 31, 1975	12.65	1,129,468
$3.42 Series 2	January 31, 1975	18.81	3,111,851
$4.75 Series 3	January 31, 1975	26.13	2,091,515
$4.75 Series 4	January 31, 1975	26.13	1,715,054
$4.75 Series 5	January 31, 1975	26.13	2,572,634
$1.50 Subordinated	January 31, 1975	8.25	866
Total			$16,916,012

Changes in the shares of the Company's capital stock

	Common		Preferred	
	Issued	Treasury	Employees'	Other
Issued at July 31, 1979	13,107,783	486,863	1,231,633	763,588
Issuances	–0–	–0–	–0–	217
Conversion of securities	340	–0–	(340)	–0–
Cancellation of series B shares	–0–	–0–	–0–	(63,732)
Issued at July 31, 1980	13,108,123	486,863	1,231,293	700,073
Less treasury stock	486,863		301,677	1,860
Outstanding at July 31, 1980	12,621,260		929,616	698,213

Note 13 Income Taxes

Income tax expense is composed of the following:

	1980	1979
Canadian:		
Operations	**$4,930,000**	$4,966,000
Dividends from Canadian subsidiaries	**–0–**	1,535,000
State	**541,000**	489,000
Total Income Tax Expense	**$5,471,000**	$6,990,000

The Company's tax returns have been examined by the Internal Revenue Service through 1974 and all differences settled. Tax returns for 1975-77 have been accepted as filed subject to examination if deemed appropriate by the Internal Revenue Service. The Company has net operating loss carryforwards available to offset future taxable income as follows:

Expiration Date	Amount
July 31, 1984	$10,837,000
July 31, 1985	18,308,000
Total Net Operating Loss Carryforwards	$29,145,000

Note 13 Income Taxes, Continued

The Company has recorded for financial statement purposes expenses amounting to $74,909,000 which will be deductible for federal income tax purposes in future years. These include depreciation, sale and leaseback transactions, profits on installment sales, deductions related to accounts receivable as well as provisions made for divestments and retail store closings.

In addition, the Company has foreign tax credits available to offset future taxes payable on foreign source income as follows:

Expiration Date	Amount
July 31, 1981	$ 39,000
July 31, 1982	203,000
July 31, 1983	448,000
July 31, 1984	1,740,000
July 31, 1985	12,058,000
Total Foreign Tax Credits	$14,488,000

Note 14 Rentals and Lease Commitments

For purposes of the following presentation, a distinction has been made between noncapitalized "financing" leases and "other" leases. A "financing" lease is a lease with a term covering 75% or more of the estimated useful life of the property or with lease payments sufficient for the lessor to recover its investment plus interest.

Rental expense of ongoing operations for the two years ended July 31 was as follows:

	1980	1979
Financing leases:		
Minimum rentals	**$ 3,168,000**	$ 3,718,000
Contingent rentals	**220,000**	274,000
Sublease rentals	**(157,000)**	(351,000)
Total financing leases	**3,231,000**	3,641,000
Other leases:		
Minimum rentals	**26,976,000**	25,940,000
Contingent rentals	**2,008,000**	2,494,000
Sublease rentals	**(847,000)**	(1,757,000)
Total other leases	**28,137,000**	26,677,000
Total ongoing operations	**31,368,000**	30,318,000
Divested operations (net of sublease rentals)	**1,318,000**	6,668,000
Totals	**$32,686,000**	$36,986,000

Minimum rental commitments payable in future periods under noncancellable long-term leases (reduced by sublease rentals) are as follows:

Fiscal Year	Financing Leases	Other Leases	Total
Ongoing operations:			
1981	$ 2,691,000	$ 19,371,000	$ 22,062,000
1982	2,588,000	18,540,000	21,128,000
1983	2,398,000	15,018,000	17,416,000
1984	2,385,000	11,638,000	14,023,000
1985	2,243,000	10,411,000	12,654,000
1986-1990	6,624,000	40,496,000	47,120,000
1991-1995	1,448,000	14,382,000	15,830,000
1996-2000	246,000	1,223,000	1,469,000
After 2000	331,000	36,000	367,000
Total ongoing operations	20,954,000	131,115,000	152,069,000
Divested operations	6,849,000	7,382,000	14,231,000
Totals	$27,803,000	$138,497,000	$166,300,000

Note 14 Rentals and Lease Commitments, Continued

In addition to minimum rentals, some leases provide for the Company to pay real estate taxes and other expenses and, in many cases, additional rentals based on sales. Renewal options exist for most long-term leases.

The present values of minimum lease commitments under noncapitalized financing leases at July 31 are as follows:

	1980	1979
Ongoing operations:		
Retail real property	**$15,065,000**	$18,328,000
Wholesale & manufacturing real property	**1,474,000**	1,238,000
Other property	**—0—**	309,000
Total present value of minimum lease commitments	**16,539,000**	19,875,000
Present value of sublease rentals	**(262,000)**	(295,000)
Total ongoing operations	**16,277,000**	19,721,000
Divested operations (net of sublease rentals)	**5,160,000**	11,553,000
Totals	**$21,437,000**	$31,274,000

The range and weighted average interest rates used in the computation of the above present values are as follows:

	Range	Average
Retail real property	2.0-10.0%	5.2%
Wholesale & manufacturing real property	3.5- 6.5%	4.8%
Other	5.0- 5.5%	5.0%
Present value of sublease rentals	3.0-10.0%	8.2%

The Company is required by Accounting Series Release 225 issued by the Securities and Exchange Commission to retroactively capitalize, in accordance with Statement of Financial Accounting Standards No. 13, certain leases entered into prior to January 1, 1977, unless to do so would result in a probable violation of an existing loan agreement. In management's opinion such retroactive capitalization of leases would cause Tangible Net Worth at July 31, 1980 to be less than $85,700,000 as required by certain of the Company's loan agreements. If such leases had been accounted for as capital leases, net earnings for the years ended July 31, 1980 and 1979 would have been increased by $1,252,000 and $5,907,000, respectively. The effect on the Company's balance sheet at July 31 would have been as follows:

	1980	1979
Increase in assets	**$10,769,000**	$12,821,000
Increase in liabilities	**15,802,000**	19,105,000
Decrease in stockholders' equity	**5,032,000**	6,284,000

Note 15 Retirement Plans

Pension expense amounted to $6,717,000 in 1980 and $6,592,000 in 1979, computed in accordance with the minimum funding standards of the Employee Retirement Income Security Act. At the latest valuation date, actuarially computed vested benefits exceeded the total pension fund assets and the balance sheet accrual at July 31, 1980 by $26,748,000 and the unfunded actuarial liability was $44,099,000.

Note 16 Employee Stock Plans

The stockholders of the Company have approved several stock purchase or option plans enabling employees to purchase shares of common or employees' preferred stock. These are the Key Executives Stock Option Plan and Employees Incentive Plans A and B.

The Company has 728,500 shares of common stock authorized to be sold upon exercise of nonqualified stock options granted to key executive employees under the Key Executive Stock Option Plan. Options may not be granted at a price less than market value on the date of grant. Options granted under this plan become exercisable at the rate of 25% per year beginning one year from date of grant and expire 10 years from date of grant. On April 10, 1980, Mr. Richard W. Hanselman, the Company's newly elected President, received an option to purchase 75,000 shares at a price of $3.00 per share. In addition to Mr. Hanselman's option, there were outstanding at July 31, 1980 options granted in December 1975 to purchase 126,000 shares at $5.125 per share.

Under Employee Incentive Stock Plan A, payments on stock purchase accounts are to be made by payroll deductions or other periodic payments and, upon a resumption of the common stock dividend, are also to be made by the Company through compensatory payments. Payments under Employee Incentive Stock Plan B are similar except employees make only limited payments and then only in specified circumstances. Employee stock purchase accounts under all stock purchase plans amounted to $18,386,000 at July 31, 1980 and $18,682,000 at July 31, 1979 and were secured by 877,392 employees' preferred shares and 26,697 common shares at July 31, 1980. No further sales of shares under plans A and B are contemplated.

Note 17 Pending Legal Proceedings

The Company and certain other retailers are defendants in treble damage actions brought on behalf of various classes of charge account customers of the defendants. These actions allege that the defendants fixed retail prices of women's clothing in various cities in violation of the antitrust laws. Settlement agreements in two of these actions, concluded in fiscal 1980, provide for the payment by the Company of a total of approximately $600,000, provision for which has been made in the financial statements.

The Company is the defendant in a class action charging it with publishing false and misleading financial statements and reports and, as a result, inflating the price of the Company's common stock. The Company agreed in fiscal 1980 to settle this action. Pursuant to that agreement the Company will pay approximately $113,000 and issue warrants to purchase approximately 138,000 shares of the Company's common stock, provision for which has been made in the financial statements.

The Company, GFC and certain former employees of the Company are defendants in a class action against them, a former customer of the Company and others. The suit alleges violations of the Federal securities laws and that the Company and GFC were "controlling persons" of the former customer and are thereby liable for its actions.

The Company is the defendant in an action brought by the former owners of a business acquired by the Company in 1968 in exchange for shares of the Company's common stock. The complaint alleges that the price of the Company's common stock was inflated as a result of false and misleading financial statements and reports issued by the Company and seeks recision of the exchange and damages alleged to be approximately $10,000,000.

The Company is the defendant in two separate class actions brought by owners of Series B and Series C preference stock. Both of the complaints allege that the Company improperly suspended the right to exchange such stock for 6½% convertible subordinated debentures and seek damages or an injunction requiring the Company to reinstate the exchange privilege. The Court tried the actions together and decided the issue of liability against the Company. The issue of damages or other relief has not yet been tried.

Note 17 Pending Legal Proceedings, Continued

The Company is also the defendant in an action brought by certain holders of Series 2 preferred stock alleging that the Company wrongfully refused to make sinking fund deposits. The complaint seeks an order requiring such deposits to be made and directing the Company to pay accrued and unpaid dividends and to redeem such stock or, alternatively, that compensatory damages be awarded. In fiscal 1980 the Court tried the case and rendered a decision in favor of the Company. The plaintiffs are appealing the Court's decision.

If the Company were required by the courts either to reinstate the exchange privilege relating to the Series B and Series C preference stock or to make sinking fund deposits, redemptions or dividend payments with respect to the Series 2 preferred stock, lenders under certain of the Company's loan agreements might assert that such action constitutes an event of default which, in turn, could result in acceleration of the maturity of substantially all of the Company's outstanding indebtedness.

The Company has been named a defendant in various other actions which, in the opinion of management, involve claims of lesser significance.

Management of the Company is unable to predict the outcome or to estimate with any degree of certainty any potential loss which may result from the above-described litigation.

Note 18 Business Segment Information

Sales to unaffiliated customers, intersegment sales, pretax earnings income (loss) and identifiable assets of the Company's business segments for the two years ended July 31, 1980 are included in the 5 year "Business Segment Information" table on page 8. Intersegment sales are made at prices comparable to sales to unaffiliated customers.

Depreciation and amortization of and additions to plant, equipment and capitalized lease rights for the two years ended July 31 were:

	1980	1979
Depreciation and amortization:		
Footwear	**$ 6,415,000**	$ 6,206,000
Men's apparel	**1,716,000**	1,344,000
Specialty retailing	**727,000**	832,000
Variety retailing	**1,821,000**	1,861,000
Corporate	**1,161,000**	1,383,000
Divested operations	**596,000**	2,621,000
Totals	**$12,436,000**	$14,247,000
Additions to plant, equipment and capitalized lease rights:		
Footwear	**$10,266,000**	$ 7,680,000
Men's apparel	**9,880,000**	2,776,000
Specialty retailing	**1,039,000**	691,000
Variety retailing	**850,000**	514,000
Corporate	**1,198,000**	515,000
Divested operations	**82,000**	943,000
Totals	**$23,315,000**	$13,119,000

Note 19 Post-Balance Sheet Event

Effective September 24, 1980, certain of the Company's long-term loan agreements were amended to permit the Company to pay fixed dividends on and to make mandatory redemptions of shares of its $4.50 Preferred Stock and its $4.25 Series A Preference Stock. The aggregate amount of such payments is limited to $800,000 during the fiscal year ending July 31, 1981 and $200,000 during any subsequent fiscal year.

On September 24, 1980 the board of directors declared dividends on the $4.50 Preferred Stock for all periods then in arrears and for the current quarter and authorized payment on November 17, 1980 of such dividends ($305,190) and of all redemption arrearages ($299,400) on the $4.50 Preferred Stock.

Note 20 Supplementary Financial Information Adjusted for Changing Prices (Unaudited)

In accordance with Financial Accounting Standards Board Statement 33, "Financial Accounting and Changing Prices," the accompanying financial information is presented to illustrate the estimated effects of inflation. The two methods required to be followed by Statement 33 are based on assumptions and estimates that have limitations due to the subjective nature of the estimating process. Since the methods used do have limitations and are experimental, this information should be viewed with a degree of caution and not viewed as being indicative of future financial results of the Company.

Under the guidelines specified in Statement 33, only cost of goods sold and depreciation expense are required to be adjusted in the determination of income from operations. The supplementary data on changing prices is based upon the historical financial statements adjusted for (1) general inflationary factors (constant dollar method) and (2) the changes in specific prices (current cost method).

The supplementary data on a constant dollar basis is expressed in average for the year dollars and reflects adjustments that have occurred in the purchasing power of the dollar as measured by the Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics. In accordance with the procedures specified in Statement 33, net sales and all expenses (other than cost of goods sold, depreciation and amortization expense) are assumed to have occurred proportionately in relation to the changing CPI-U over the course of the year, so that these income statement items are deemed to be stated in average 1980 dollars in the primary financial statements and require no adjustment in the constant dollar statement. Constant dollar amounts do not represent appraised values or any other measure of current value.

The current cost of inventories represents the cost of purchasing such inventory at year-end prices. Cost of goods sold under the current cost method represents estimated prices in effect at date of sale. The current cost of property, plant, and equipment and the related depreciation expense are estimates of what the Company's existing assets would cost at July 31, 1980. Depreciation expense was calculated using the same methods and rates of depreciation as used in the historical financial statements. Indexation was the method used in estimating the current cost amounts. These values represent the estimated current costs of existing assets and do not consider technological improvements and efficiencies associated with the normal replacement of productive capacity.

Statement 33 prohibits the modification of income tax expense for any timing differences, allocations or adjustments that may result from applying the different methods in preparing the supplementary data.

The gain from the decline in purchasing power of net monetary liabilities is derived from the concept that during inflationary periods the purchasing power of amounts owed decreases. Net monetary assets (or liabilities) include cash, claims to cash and amounts owed, which are fixed in terms of number of dollars to be received or paid. The gain is calculated by measuring the increase in purchasing power for the year attributable to general inflation, having taken into account net balances of monetary liabilities at the beginning and end of the year and transactions for the year. This is not a realized gain and does not represent funds available for dividends and capital.

Note 20 Supplementary Financial Information Adjusted for Changing Prices (Unaudited), Continued

It should be noted that losses adjusted for general inflation and specific prices do not include any effect for the accumulated excess of constant dollar and current cost property, plant and equipment over historical cost, or the gain from decline in purchasing power of net monetary liabilities. Therefore, net losses adjusted for general inflation and specific prices reflect the penalty for inflated depreciation and inventory cost without the benefit from either the inflated value of the Company's assets or the increasing value of the Company's net monetary liabilities.

The statement of consolidated earnings adjusted for changing prices for the year ended July 31, 1980 follows:

In Average 1980 Dollars In Thousands	As Reported in the Primary Statements	Adjusted for General Inflation	Adjusted for Changes in Specific Prices (Current Costs)
Net sales	$834,683	$834,683	$834,683
Cost of goods sold	553,972	581,884	564,087
Depreciation and amortization	12,436	19,440	19,761
Other operating expenses	250,887	250,887	250,887
Interest expense	19,198	19,198	19,198
Other income	6,934	6,934	6,934
Operating income (loss):			
Ongoing operations	4,649	(29,819)	(12,414)
Divested operations	475	27	98
Gain on divestments	3,800	3,800	3,800
Pretax earnings (loss)	8,924	(25,992)	(8,516)
Income taxes	5,471	5,471	5,471
Earnings (loss) before discontinued operations	$ 3,453	$ (31,463)	$ (13,987)
Other Information			
Purchasing power gain from holding net monentary liabilities during the year		$23,735	$23,735
Increase in specific prices (current costs) of inventories and property, plant and equipment held during the year			$45,271
Less effect of increase in general price level (constant dollar)			42,710
Excess of increase in current costs over increase in the constant dollar level			$ 2,561

The information included in the five year comparison of selected supplementary financial data adjusted for the effects of general inflation is expressed in average 1980 constant dollars. As required, net sales and market price per common share at year-end, are restated for each of the five years shown, with earnings (loss) before discontinued operations and the gain in purchasing power of net amounts owed being restated only for the year 1980. Net assets at year-end is a restatement of stockholders' equity as reported in the primary financial statements, adjusted to reflect the excess of the constant dollar and current cost amounts for inventory and property, plant and equipment over the respective historical/nominal dollar amounts.

Note 20 Supplementary Financial Information Adjusted for Changing Prices (Unaudited), Continued

The five-year comparison of selected supplementary financial data adjusted for the effects of changing prices for the years ended July 31 follows:

In Average 1980 Dollars	**1980**	1979	1978	1977	1976
Net sales	**$834,683**	$1,126,210	$1,304,331	$1,348,266	$1,493,832
Historical Cost Information Adjusted for General Inflation					
Loss before discontinued operations	**(31,463)**				
Per share data—primary	**(2.73)**				
Net assets at year-end	**142,329**				
Current Cost Information					
Loss before discontinued operations	**(13,987)**				
Per share data—primary	**(1.35)**				
Excess of increase in specific prices of inventories and properties over increase in the general price level	**2,561**				
Net assets at year-end	**136,897**				
Other information					
Purchasing power gain from holding net monetary liabilities during the year	**23,735**				
Market price per common share at year-end	**$ 3.67**	$ 4.69	$ 7.17	$ 5.31	$ 9.10
Average consumer price index	**234.9***	207.1	188.8	176.8	166.9

All figures are in thousands except amounts per share and price index.
*Estimated Average

Note 21 Quarterly Financial Information (Unaudited)

	3 Months October	3 Months January	3 Months April	3 Months July	Fiscal Year
Net sales					
1980	$227,531	$221,015	$198,212	$187,925	$834,683
1979	283,186	277,675	231,888	200,176	992,925
Gross margin					
1980	73,076	78,870	63,956	60,209	276,111
1979	94,207	89,772	77,169	58,965	320,113
Operating income (loss):					
Ongoing operations					
1980	4,795	7,318	(4,776)	(2,688)	4,649
1979	4,317	5,174	442	(2,140)	7,793
Divested operations					
1980	466	56	(75)	28	475
1979	2,716	(781)	(1,783)	(1,670)	(1,518)
Earnings (loss) before discontinued operations and extraordinary credit					
1980	2,540	4,211	(3,162)	(136)	3,453
1979	1,176	4,534	(3,759)	(9,916)	(7,965)
Earnings (loss) before extraordinary credit					
1980	2,540	4,211	(3,162)	(136)	3,453
1979	1,176	4,534	(3,759)	4,381	6,332
Net earnings (loss)					
1980	$ 3,319	$ 6,202	$ (5,932)	$ (136)	$ 3,453
1979	2,648	7,030	(6,429)	3,083	6,332
Primary earnings (loss) per common share:					
Before discontinued operations and extraordinary credit					
1980	$ .13	$ .26	$ (.31)	$ (.07)	$ .02
1979	$ .02	$ .28	$ (.37)	$ (.85)	$ (.91)
Before extraordinary credit					
1980	$ .13	$ .26	$ (.31)	$ (.07)	$ .02
1979	$ .02	$ .28	$ (.37)	$ .28	$ .22
Net earnings (loss)					
1980	$ .19	$ .42	$ (.53)	$ (.07)	$ .02
1979	$ .14	$ .48	$ (.58)	$ .17	$ .22

All figures are in thousands except amounts per share.

Securities Information—Preferred Stock

The following table shows the bid and asked prices for each quarter of fiscal 1980 and 1979 on those classes of the Company's preferred stock which were traded in the over-the-counter market. All other classes of preferred stock were virtually untraded and no meaningful price information could be obtained. Dividends on cumulative preferred stock are twenty-two quarters in arrears, except the $4.50 Cumulative Convertible Preferred stock. On September 24, 1980, the board of directors declared dividends on the $4.50 Preferred for all periods then in arrears and for the current quarter. (See Note 19.)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Bid	Asked	Bid	Asked	Bid	Asked	Bid	Asked
$4.50 Cumulative								
1980	NQ	NQ	40/38	45	36	43/40	NQ	NQ
1979	NQ	NQ	40	–	40	–	42/40	50/47
$6.00 Series B								
1980	NQ	NQ	33	38	33	37	NQ	NQ
1979	NQ	NQ	31/28	34/32	28	32	35/34	38
$6.00 Series C								
1980	NQ	NQ	33	37	33	37	NQ	NQ
1979	34	39	31/28	34/32	28	–	35/34	38
$2.30 Series 1								
1980	NQ	NQ	6	9	7	10	NQ	NQ
1979	NQ	NQ	10/9	13/12	9	12	9/7	11/9
$3.30 Series 2								
1980	NQ	NQ	7	–	8	–	NQ	NQ
1979	NQ	NQ	11/10	–	10	–	10	–

Information for this chart furnished by the National Quotation Bureau. Where two numbers are shown they are the high and low for the period.

Securities Information—Common Stock (New York Stock Exchange)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1980	5⅛	3⅜	4¼	3⅜	4¼	2¾	4	2⅞
1979	6⅞	4	5¼	3¾	5⅜	4¼	5¾	4⅛

Five Year Operating Results

Years ended July 31	**1980**	1979	1978	1977	1976
Net sales	**$834,683**	$992,925	$1,048,351	$1,014,787	$1,061,390
Cost of sales	**558,572**	672,812	705,740	693,085	686,394
Gross margin	**276,111**	320,113	342,611	321,702	374,996
Selling, general and administrative expense	**258,723**	292,157	302,960	304,500	316,132
Interest expense	**19,198**	24,479	21,286	18,646	17,787
Other income (loss)	**6,934**	2,798	999	(373)	174
Operating income (loss):					
Ongoing operations	**4,649**	7,793	20,943	4,622	39,555
Divested operations	**475**	(1,518)	(1,579)	(6,439)	1,696
Gain on (provision for) divestments	**3,800**	(7,320)	–0–	(33,224)	–0–
Income taxes	**5,471**	6,990	8,353	45,287	20,510
Nonconsolidated companies	**–0–**	70	(285)	(262)	(1,186)
Earnings (loss) before discontinued operations and extraordinary credit	**3,453**	(7,965)	10,726	(80,590)	19,555
Excess provision for future losses of discontinued operations	**–0–**	14,297	–0–	–0–	–0–
Loss from discontinued operations	**–0–**	–0–	–0–	(55,193)	(3,625)
Earnings (loss) before extraordinary credit	**3,453**	6,332	10,726	(135,783)	15,930
Extraordinary credit—U. S. federal income tax	**–0–**	–0–	4,210	–0–	–0–
Net earnings (loss)	**$ 3,453**	$ 6,332	$ 14,936	$ (135,783)	$ 15,930
Primary earnings (loss) per common share:					
Before discontinued operations and extraordinary credit	**$ .02**	$ (.91)	$ .57	$ (6.71)	$1.28
Before extraordinary credit	**$ .02**	$ .22	$ .57	$(11.12)	$1.00
Net earnings (loss)	**$ .02**	$ .22	$ .90	$(11.12)	$1.00

All figures are in thousands except amounts per share.

Management's Discussion and Analysis of Operating Results

This discussion should be read in conjunction with both the Five Year Operating Results on the preceding page and the Business Segment Information on page 8. During the past two years Genesco divested several operating divisions and manufacturing plants. This discussion addresses changes in operating results of ongoing operations only.

Net Sales

1980 vs. 1979

Net sales of ongoing operations increased $1,799,000 (0.2%) due principally to increased prices. Footwear sales decreased $5,580,000 (1.2%). Unit sales of footwear at both the wholesale and retail levels were less than last year. Increased footwear prices were not sufficient to offset unit decreases.

Men's apparel sales decreased $888,000 (0.5%) primarily because of a 36 percent reduction in sales of fashion jeans and slacks attributed to weak fall and holiday selling seasons. Sales of tailored clothes were slightly ahead of last year (although unit sales were down) reflecting increased prices.

Sales of specialty retailing operations were $977,000 (1.7%) ahead of last year because of increased prices. Unit sales were down. Variety retailing sales increased $7,290,000 (7.0%) due to increased prices and to increased consumer spending for lower-priced merchandise.

1979 vs. 1978

Net sales of ongoing operations decreased $45,871,000 (5.5%) primarily because of the closing of a substantial number of variety retailing stores. Footwear sales increased $10,024,000 (2.2%) due principally to increased prices. Unit sales of footwear at the retail level were slightly less than last year while unit sales at the wholesale level experienced a substantial decline due principally to a reduction in orders from volume retailers. Hosiery sales increased, reflecting higher prices as well as an increase in units sold resulting from penetration of new markets.

Sales of men's apparel decreased $4,452,000 (2.5%) primarily because of decreases in sales of jeans and slacks. These decreases, which were in both dollar sales and unit sales, are attributed primarily to a decline in orders from volume retailers. Sales of tailored clothing increased (although unit sales were down slightly) reflecting an ongoing program to increase sales of branded merchandise which sells for higher prices than unbranded.

Sales of the specialty retailing segment decreased $3,912,000 (6.2%) reflecting a decrease in the number of stores operated by ongoing divisions. Variety retailing sales decreased $47,531,000 (31.2%) reflecting the closing of 125 Kress and Elmore stores.

Gross Margin

1980 vs. 1979

Gross margin of ongoing operations increased $5,353,000 (2.1%) and the gross margin percentage increased from 32.5% to 33.1%. Both footwear and men's apparel gross margins increased primarily because of increased prices, improved utilization of plant capacity and better controls over manufacturing, material and labor costs. Specialty retailing gross margin decreased primarily due to increased markdowns. Variety retailing gross margin decreased due to increased markdowns and increased inventory shrinkage.

1979 vs. 1978

Gross margin of ongoing operations decreased $16,714,000 (6.1%) primarily because of the closing of a substantial number of variety retailing stores. Footwear gross margin increased primarily because of increases in selling prices, both at the wholesale and the retail levels. Foreign currency translation reduced footwear gross margin by $1,872,000 more in 1979 than in 1978.

Men's apparel gross margin decreased slightly, principally because of decreases in sales of jeans and slacks to volume retailers and from costs incurred in closing five jeans and slacks plants. Costs in these areas could not be reduced ratably with the decline in sales volume. Jeans and slacks gross margin was also adversely affected by substantial markdowns of fashion sportswear inventory. Men's tailored clothing gross margin increased reflecting the Company's increasing emphasis on branded merchandise.

Specialty retailing gross margin declined slightly primarily because of a decrease in the number of stores operated by ongoing divisions and because of a reduction in initial mark-on due to competitive factors combined with a slight increase in markdowns. Variety retailing gross margin declined substantially both in dollar amount and as a percentage of sales as a result of sales volume reductions and increased inventory shrinkage both resulting from the store closings referred to in "Net Sales" above.

Selling, General and Administrative Expenses

1980 vs. 1979

Expenses of ongoing operations increased $8,636,000 (3.7%). Footwear expenses increased primarily because of increases in expenses directly related to retail sales volume (such as sales commissions and percentage rents) and because of higher occupancy costs in new stores and in renovated stores. Men's apparel and specialty retailing expenses increased slightly. Variety retailing expenses increased because of increases in volume-related selling expenses and from expenses incurred in drug store operations opened since July 1979.

1979 vs. 1978

Expenses of ongoing operations decreased $10,377,000 (4.3%). Footwear expenses increased primarily because of increases in expenses directly related to retail sales volume (such as sales commissions and percentage rents) and to opening of additional retail stores. Foreign currency translation reduced footwear expenses by $1,331,000 more in 1979 than in 1978. Men's apparel expenses increased reflecting royalty payments related to sales of branded merchandise, salesmen's commissions and other sales volume-related expenses. Specialty retailing expenses decreased because of a decrease in the number of stores operated by ongoing divisions. Variety retailing expenses decreased substantially because of the store closings referred to in "Net Sales" above.

Interest Expense

1980 vs. 1979

Interest expense decreased $5,281,000 (21.6%) due to a reduction in borrowings resulting from cash derived from divestments. The Company's short-term borrowing rate increased 37.7% from an average of 11.4% last year to 15.7% this year, the effect of which was more than offset by a $55,963,000 (70.7%) reduction in average borrowings.

1979 vs. 1978

Interest expense increased $3,193,000 (15.0%). The acquisition in September 1978 of Tennessee Ravenwood Properties, Inc. accounted for $1,182,000 of the increase. The remaining increase was primarily due to an increase of 37.3% in the Company's short-term borrowing rate from an average rate of 8.3% in 1978 to 11.4% in 1979, the effect of which was partially offset by a decrease in average borrowings of $19,940,000 (20.1%).

Other Income (Expense)
The Company periodically establishes provisions for future losses to be incurred in divesting or closing operations by charging "other income" and crediting appropriate balance sheet accounts. As future losses are actually incurred, they are charged to "cost of sales" or to "expenses" in the consolidated earnings statement but their profit and loss effect is offset by a credit to "other income" and by a charge to the balance sheet accounts. The losses from divested operations actually incurred in 1980 were much greater than 1979, which were in turn greater than 1978. The credits to "other income" created by offsetting the effect of these charges against the balance sheet accounts are the reason "other income" increased in both 1980 and 1979.

Gain on (Provision for) Divestments
See Note 10.

Income Taxes
The reduction of $1,519,000 (21.7%) in income taxes in 1980 is primarily because no dividends were paid in 1980 to Genesco Inc. by Canadian subsidiaries. Last year a $1,535,000 Canadian withholding tax was provided on such dividends. U.S. federal income taxes were not provided in 1980 or 1979 primarily because of the availability of currently generated foreign tax credits and investment tax credits to offset U.S. federal income taxes otherwise payable on current U.S. income (see Note 13).

The reduction of $1,363,000 (16.3%) in 1979 compared to 1978 is the result of a reduction in federal income taxes on U.S. operations being partially offset by an increase of $1,657,000 in Canadian income taxes on operations, an increase of $1,044,000 in Canadian withholding taxes on dividends paid to Genesco Inc. by Canadian subsidiaries and an increase of $146,000 in state taxes.

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New York, New York 10004

Independent Accountants
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First American Center
Nashville, Tennessee 37238

Annual Stockholders Meeting
Thursday, December 4, 1980

Form 10-K
Each year Genesco files with the Securities and Exchange Commission a Form 10-K report which contains more detailed information. If you would like to receive a copy, please send your request to:
Manager, Corporate Information Services
Genesco Inc.
Genesco Park Room 488
Nashville, TN 37202

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